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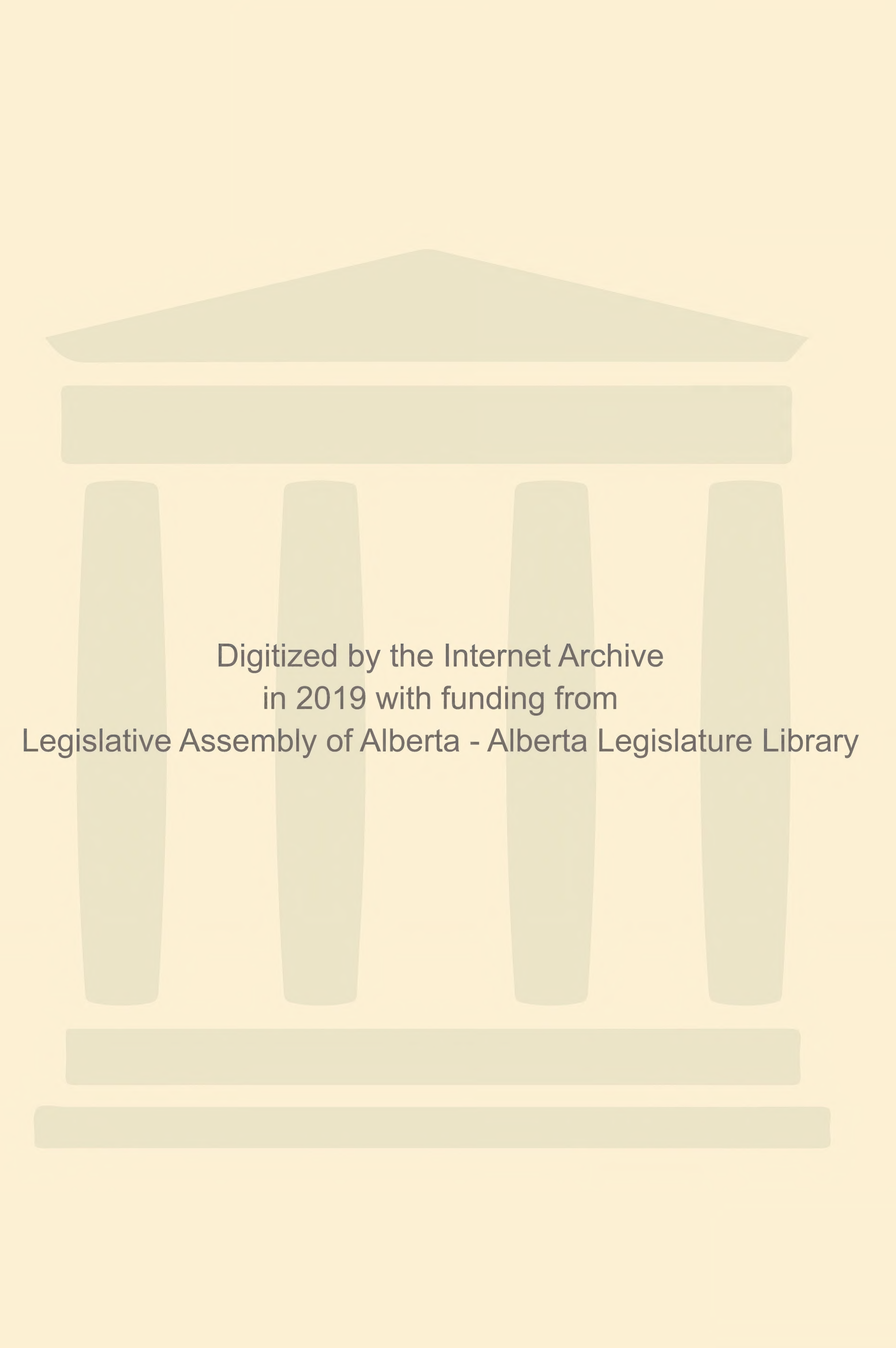
Tax

Ourselves

?

Prepared and Published by
THE TREASURY DEPARTMENT
Government of the
Province of Alberta

HON. E. W. HINMAN, Provincial Treasurer



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FOREWORD

For many months now you have been hearing a lot about a new deal in municipal finance.

Two questions have been uppermost in the minds of those making the study.

1. What are the most acceptable sources of additional tax revenue which *may* be required?
2. Can we devise a more equitable system of sharing the present and future tax burdens?

As the study has progressed we have become increasingly aware of the unpopularity of taxes in general and of the suspicion and prejudice which are engendered by any suggestion of change.

Yet we are confident that our democracy is mature enough to meet the challenge and that our citizens will, if given time and opportunity, make a fair and objective analysis of many alternate proposals and accept reasonable changes in a responsible manner.

The discussions which follow embody the pros and the cons as they apply to many aspects of the municipal and provincial financial policies. There has been an earnest endeavor to include all the arguments for and against as they have come to our attention. We know that new arguments will come to light as more and more of our citizens bring their experience, knowledge and powers of thought to bear on the subject and we welcome these new ideas.

It is the hope of the government that our best collective thinking can be crystallized to permit new policies to be covered by necessary legislation in 1958.

E. W. HINMAN,
Provincial Treasurer



INTRODUCTORY

This brochure has been prepared in the hope that it will encourage thinking and discussion among our taxpayers so that the best possible solution to present day problems may be found.

To avoid misunderstanding, it must be stressed at the outset that the notes which follow are not intended to support or to oppose any or all of the taxes dealt with. They are presented impartially, purely as a stimulant to public discussion. This in turn may generate recommendations which ultimately may become embodied in legislation. Any legislative action resulting from such recommendations may rightfully be considered to reflect the reasoned opinion and the coherent demands of the public at the local level, presented through their local governments.

METHOD FOLLOWED

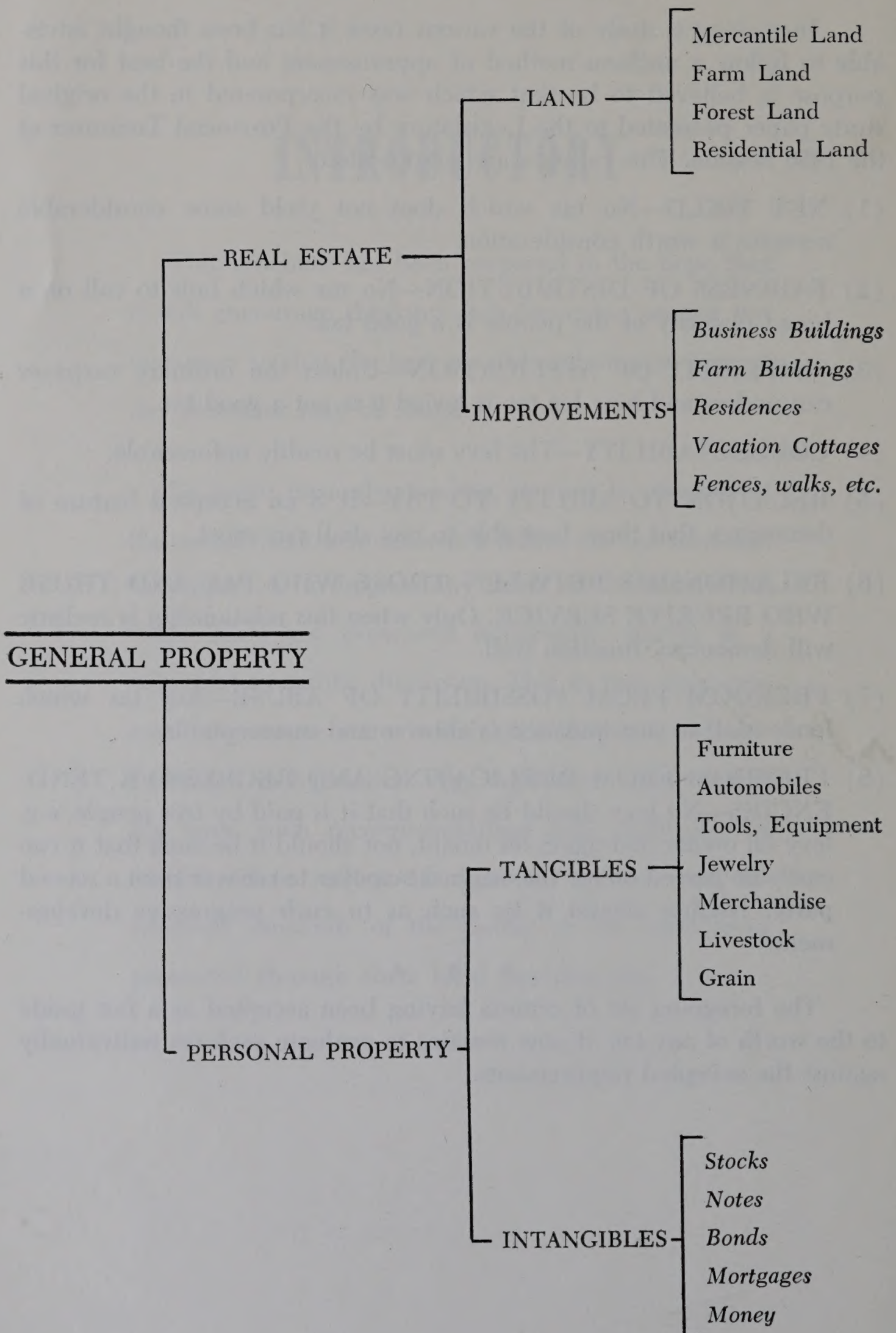
In making a study of the various taxes it has been thought advisable to follow a uniform method of appraisal and the best for this purpose is believed to be that which was incorporated in the original study paper presented to the Legislature by the Provincial Treasurer at the 1956 Session. This rating scale is appended:

- (1) NET YIELD—No tax which does not yield some considerable revenue is worth consideration.
- (2) FAIRNESS OF DISTRIBUTION—No tax which fails to call on a broad majority of the people is a good tax.
- (3) SIMPLICITY OF APPLICATION—Unless the ordinary taxpayer can understand how his tax is levied it is not a good tax.
- (4) COLLECTABILITY—The levy must be readily enforceable.
- (5) RELATION TO ABILITY TO PAY—It is an accepted feature of democracy that those best able to pay shall pay most.
- (6) RELATIONSHIP BETWEEN THOSE WHO PAY AND THOSE WHO RECEIVE SERVICE. Only when this relationship is realistic will democracy function well.
- (7) FREEDOM FROM POSSIBILITY OF ABUSE—Any tax which lends itself to manipulation is abusive and unacceptable.
- (8) FREEDOM FROM DUPLICATING AND REGRESSIVE TENDENCIES—No levy should be such that it is paid by two people, e.g. levy on owner and again on tenant, nor should it be such that it can easily be passed on for the original taxpayer to recover from a second party. Neither should it be such as to curb progressive development.

* * *

The foregoing set of criteria having been accepted as a fair guide to the worth of any tax, it now remains to evaluate each tax individually against the accepted requirements.

GENERAL PROPERTY



PROPERTY TAXES

The General Property Tax as such is not imposed in Alberta although it is an important part of government revenue in many parts of the world. General property means all wealth, tangible and intangible, which has exchange value. In theory it is levied according to exchange value, usually at a common rate throughout a given area.

The accompanying chart shows general property to be divided under two main heads: Personal Property and Real Property, more commonly termed Real Estate. These are further divided into Land, Improvements, Tangibles and Intangibles.

The practice in Alberta is to tax real estate separately from personal property. The definition of this latter is limited in this Province, being confined to merchants' stock in trade, in the absence of other business tax; and to certain moveable properties such as portable dwellings, construction equipment and power units.

Taxation authorities say a property tax is a tax on wealth. Whereas income tax, for example, is imposed on something which the taxpayer receives between two points of time; any property tax is based on what he owns at one particular point of time.

A canvass of various urban and rural municipal officials brought forth a number of opinions which are now summarized under the different heads of the rating scale, both for and against.

PERSONAL PROPERTY TAXES

YIELD

For

Applied broadly to all personal possessions other than real estate personal property taxes can yield very large revenues.

Against

If means of assessing and collecting are inadequate the yield is hardly worth costs of collection.

APPLICATION

For

Since nearly all adults have personal possessions which may be assessed the personal property tax will reach a greater number of persons than the real property tax.

Against

Since it is usual for real property owners to be also owners of at least average values in personal property this tax may add to the already unfair tax burden of this class of people.

SIMPLICITY

For

Since the tax may be defined as a flat mill rate or percent of assessed value the tax is readily understood.

Against

In application evaluation and assessment becomes difficult and involved and the taxpayer is frustrated when he attempts to evaluate his assessment.

COLLECTABILITY

For

On types of personal property not easily moved or concealed the tax is readily collectable.

Against

Applied broadly to personal possessions there are a great many difficulties both in assessing and collecting. In this regard the tax is considered a weak one. It is usual to find the lists of uncollectables of personal property taxes to be ever increasing.

RELATION TO ABILITY TO PAY

For

Personal property, like real property, is generally accepted as a fair indication of ability to pay, whether it is in the form of stock-in-trade, stockpiled equipment or possessions of portable nature.

Against

Many items assessable as personal property may not in reality, indicate the wealth of the taxpayer, e.g. stock-in-trade held on consignment, equipment of rapidly depreciating value or highly obsolescent nature.

RELATION TO SERVICE RECEIVED

For

In this complicated age of broad public service, all taxable property, and its owners receive service, either visible or invisible. Needless to say, only those taxes earmarked for specific services can easily be judged in relation to the service. Otherwise the relationship must be accepted in a general way.

Against

A transient resident assessed this tax may be resident elsewhere long before his money's worth has been received in service. In other instances, it might be argued that no apparent service whatever is received by certain payers of this personal property tax.

POSSIBILITY OF ABUSE

For

There is little danger of abuse, especially if the suggestions regarding central collection and local sharing of taxes on moveables are adopted.

Against

The history of personal property taxation provides a story of evasion and unfair application. It is most difficult to assure honest and fair application.

REGRESSIVE TENDENCIES

For

Since equity and equal responsibility are the aims in imposing a good personal property tax, there are no regressive features.

Against

It is the most regressive of the property taxes since personal possessions are likely to represent a higher portion of the total wealth of the poor than of the rich. Consequently the tax will take a higher percentage of the income of those least able to pay it.

GENERAL

Personal property taxes are second to none in exciting the resentment of the taxpayer. It is claimed that the tax discourages ownership of many goods and results in poorly equipped shops and industries and lower consumption of many products, e.g. cars, radios, home workshops, etc.

REAL PROPERTY (REAL ESTATE) TAXES

One of the most important taxes in present day use, the Real Estate Tax is a major source of municipal revenue. In Alberta improvements on farm real estate are not taxed. In the urban centres they are taxed. The following summary of collected opinion is given under our previously adopted rating scale.

YIELD

For

Historically this tax has proved to be sound, whether imposed on dwellings, business premises or industrial buildings. The yield can be quickly determined and conveniently collected and is bound to be high.

Against

Because it is a capital tax, rather than a tax on surplus, it tends in depressed times to confiscation of the property itself, through non-payment of taxes—The cash yield thus can become negligible.

APPLICATION

For

Because of its broad coverage the real estate tax is conducive to equity. It is generally conceded that even renters pay the tax through the rent payments they make. Since the tax on industrial property is usually passed on to the consumer in prices it can be argued that no one escapes the tax.

Against

Modern trends in our way of living indicate an increase in the number of people who get service but who get very little if anything in real property taxes. e.g. Transient and migratory families, tourists, the army of highly paid young men and women who never own real property and pay little in rents.

SIMPLICITY

For

Few taxpayers are unaware of the process by which property tax is levied. Because payments to the municipality are direct the taxpayer is always informed as to its nature and extent.

Against

Taxpayers generally are only vaguely familiar with the process of imposing property taxes. Factors used in assessment are incomprehensible to a large number of taxpayers.

COLLECTABILITY

For

Collection of real estate taxes is simple and readily enforceable since non-payment results in forfeiture of ownership.

Against

Strict enforcement can lead to confiscation. This is a poor substitute for cash payment of taxes. Tax sales seldom result in full collection of the levy.

RELATION TO ABILITY TO PAY

For

It is generally conceded by tax authorities that, with certain exceptions, the ownership of property is indicative of the owner's means hence his ability to pay.

Against

Here the tax is weak in two ways. First, large families require large homes whether or not the income is adequate. On the other hand many of the wealthy own meagre homes and have large investments in stocks, bonds, etc.

For

Against

Second: Many types of real property lose value far beyond normal depreciation due to circumstances, e.g. a factory where production has ceased or houses in a ghost town. Applied to homes the depreciation goes on at the same time, quite often, as the steady increase in the earning power of the owner.

Moreover, some owners are rewarded by unearned increments which are difficult to assess for taxation purposes, e.g. farm lands sought for industrial sites or city sub-divisions, or poor pasture land suddenly becoming valuable for gravel deposits.

RELATION TO SERVICE RECEIVED

For

Property owners benefit directly from many services which their taxes pay for—fire, police and health protection for example. Whether resident or landlord, the benefit accrues to property and owner.

Against

The relationship between services received and real property taxes becomes more and more unrealistic as services to persons rather than to property take an ever higher portion of the tax levy, i.e. as education, hospitalization, library service, recreation, social services, parks, highways, snow removal, all of which accrue to us as persons not as property owners, are increasing in total costs much faster than the part of policing, fire protection, access to roads, and utilities which can properly be called service to property.

Never did the family with many children and little property get so much for so little. Never did the farm requiring large labour force pay so little toward the costs of servicing the labour force and its families. Conversely, never did the large property owner with few dependents or the industry with small payroll and high investment pay so much for so little.

The tourist, the camp dweller, the trailer dweller expect all the services and contribute little toward the bill when real property taxes are the chief source of revenue.

POSSIBILITY OF ABUSE

For

Abuses arising from mal-assessment are subject to revision. On the whole real estate taxes are straight-forward and incapable of manipulation.

Against

The real threat of abuse lies in maintaining real property taxation as the mainstay of local government. The need for tax money will probably be greater as property values and income potentials from rents decrease in days of deflation or depression.

REGRESSIVE TENDENCIES

For

The few regressive tendencies of real estate taxation, e.g. business property taxes going into prices of products, taxes embodied in rents etc. are not important enough to warrant concern. Shifting of taxes on a moderate scale leads to diffusion and tends to bring the whole community into the picture.

Against

Rapidly rising taxes are forcing owners out into the low tax areas. This causes taxes to fall more heavily on those remaining. Those people who spend a high portion of their incomes on well improved and well kept homes reap higher taxes for their trouble.

The present situation in regard to real estate taxes is that they have risen considerably in the urban centres, especially in the two principal cities—in direct response to the demand for new schools and municipal services brought about by industrial development and the rural flight to the city.

In the opinion of some officials interviewed, higher taxes today are simply the instalments the taxpayers are paying on the capital services they have bought on credit.

It has been pointed out by one authority that on a comparative basis, the proportion of property taxes to personal income in Alberta is low, compared with former years. In 1926 it was 5%, in 1933 it had risen to 12%, but in 1954 real estate taxes were estimated at only 4% of personal income. They rose one point in 1955. In the light of this evidence it is not fair to say that real property tax in urban centres is as high as the taxpayer can possibly pay.

On the other hand real property taxes on farm lands are taking an increasing percentage of the farm income.

SALES TAX

Perhaps the most controversial of all taxes at the present time is the sales tax. Although it has never been actually proposed by any person in authority, and has been projected merely as one of several taxes worthy of discussion, opinion on this tax has been more forcefully expressed than on any other.

Applied to the rating scale previously adopted, here is how a summary of collected opinion appears.

YIELD

For

Because a sales tax is aimed at all consumers the yield is bound to be satisfactory. The per capita average is \$13 for provinces currently imposing sales taxes. A 1% sales tax without exemptions is estimated to equal 10 mills on property assessment.

Against

To provide a high yield the tax must be applied to even essential purchases such as bread and medicines.

APPLICATION

For

Because sales tax cannot be shifted, it is a fair tax, falling equally on all who spend money. In order to ensure equity, there should be no exemptions. Likewise, provision should be made to raise or lower the tax to meet current needs.

It reaches the tourist, the Indian, the playboy. It assures some tax revenue from the lavish expenditures of promoters and boom time developers.

Against

It is unfair to low wage earners and large families because it tends to tax, not their surplus, but their necessities. It can only reduce the volume of things they consume. It actually applies to persons who should not be taxed at all—the pensioners, relief recipients, even children who spend their savings.

SIMPLICITY

For

This is the essence of simplicity as long as the tax is visible, i.e. as long as it is collected from the purchaser at the time of purchase.

Against

From the retailer's point of view the simplicity of this tax will merely complicate his business activities, since he must do the collecting. If exemptions or varying rates get into the application of the sales tax it becomes complicated and frustrating.

COLLECTABILITY

For

The sales tax is collectable at the time of paying for a purchase. No arrears can accumulate.

Against

Since Government Collector cannot deal with each sale it forces merchants to become collectors.

RELATION TO ABILITY TO PAY

For

Each taxpayer pays in proportion to his spending program, which can be accepted as indication of his ability to pay.

Against

Rather than "ability to pay" it should be accepted that the sales tax is based on "necessity to buy"—with emphasis on its effect on low wage earners. Even those who must have relief must pay the tax.

RELATION TO SERVICE RECEIVED

For

Since all citizens benefit nowadays from some or all of the manifold services provided by local governing bodies, the relationship between tax and service is strong and permanent.

Against

There will be many people who will pay far out of proportion to the services they may hope to receive, e.g. tourists.

POSSIBILITY OF ABUSE

For

The sales tax is subject to no greater possibility of abuse than any other. The general imposition of this tax tends to avoid abuses which may apply to specific sales taxes.

Against

Once exemptions or varying rates are introduced the tax is subject to abuse. Merchants have been known to collect tax on non-taxable goods and keep the tax. Records have been falsified to avoid payment of full taxes.

Merchants who lose on accounts receivable are obliged to pay taxes which they may never collect.

REGRESSIVE TENDENCIES

For

It cannot be duplicated by being imposed on two people, so long as it is levied on the ultimate consumer at the time of purchase. Only in case of excessive levies could it be detrimental to progress.

The seeming regression of the tax applied to large family low income groups is more than offset by the steadily increasing services, social and otherwise, which these families get at public expense.

Against

It is regressive inasmuch as a new sales tax will call on the taxpayer to pay twice on the same purchase—once to the Federal Government and once to local or provincial.

It is unfairly regressive in that those of low income, forced to spend it all will pay a higher percent of income than will those of high income.

In high cost areas the addition of tax on percentage basis increases the penalty.

In high freight areas the percentage application of the tax adds unfairly to costs of materials.

The taxpayer sees in sales tax an immediate rise in the cost of living and in many production costs.

Sales tax invariably arouses taxpayer's resentment because of the nuisance involved in small purchases.

One of the advantages of a general sales tax is that collections are sure, speedy and cheap—averaging 4 to 5 cents on the revenue dollar. On the other hand, retailers may resent the expenditure of time, labor and cash on the collections even though they are allowed a fair percentage of the tax collected. Too, they may occasionally be obliged to absorb the tax themselves in order to hold resentful customers who blame the retailer for the tax. In this respect sales tax may be subject to abuse.

As for the sales tax being responsible for easing the burden on real estate, it is reported in Eastern Canada that in Montreal the imposition of a civic sales tax has shown no evidence of easing the property taxes. However, were it not for the yield of sales tax real property taxes must certainly have been higher still or services correspondingly curtailed.

As has been pointed out the imposition of a 2, 3, 4 or 5% sales tax can be used partially to relieve property taxes and partly to yield additional revenue.

COMMODITY TAXES

Commodity taxes are those applied to specified goods. The levy may be so much per unit of the commodity or a specified percentage of the selling price. The tax may be a rather high levy on certain commodities which we must buy regardless of price; it may be a levy on a product which is in great demand and associated closely with certain government services, e.g. gasoline tax for road building; it may be a low rate on commodities much in demand or it may be a levy on the commodities classed as luxuries. Occasionally the levy is discriminatory, e.g. on specified commodities used in ritual by some religious sect.

Some examples are, gasoline tax, liquor tax, coal tax, milk tax, jewelry tax, fur tax, tea tax, tobacco tax.

How do commodity taxes rate?

YIELD

For

Arbitrarily applied the tax can be made to yield considerable revenue.

Against

As usually applied the yield is low and cost of collection high.

APPLICATION

For

If applied to such commodities as bread the tax reaches nearly everyone.

Against

If applied to luxuries or specific goods not in common demand the tax may be designed to exempt most of the people.

SIMPLICITY

For

Applied on a unit basis on a limited number of commodities the tax is relatively simple.

Against

Applied on many different commodities at different rates the tax is often complicated and involved.

COLLECTABILITY

For

If applied to a very few commodities produced by a very few manufacturers and traded in by a few licensed traders the tax is highly collectable.

Against

If applied to many items which are easily produced or procured the tax is hard to collect and collection costs take a large part of the yield.

RELATION TO ABILITY TO PAY

For

Applied to luxury items the tax falls on those best able to pay.

Against

Applied to products in general demand and need the tax has little regard for ability to pay.

RELATION TO SERVICE RECEIVED

For

A specific commodity tax earmarked for a special purpose can apply almost entirely on the basis of service received; e.g., gas tax for roads, ammunition tax for game propagation.

Applied to widely used commodities and used for general government service the tax is closely related to the service required; e.g., a bread tax would require most from the big family getting most general service.

Against

As more commonly applied the object is general revenue and any close relationship between those who pay and those who get service is coincidental.

Applied to luxury items there is bound to be disproportion between tax paid and service received.

POSSIBILITY OF ABUSE

For

Against

At the very best the tax is subject to many abuses including overcharging, failure to remit, black markets, preferential treatment by inspectors and collectors, false records, etc.

REGRESSIVE TENDENCIES

For

Applied to luxury items and not aimed to produce any considerable revenue the tax can be anything but regressive.

Against

Applied to a wide range of everyday commodities to yield a high revenue the tax becomes highly regressive.

THE PRESENT SITUATION IN REGARD TO COMMODITY TAXES

In Alberta there is only one commodity tax levied provincially. This is the tax on gasoline. The net revenue from this tax is shared equally by the Province and the municipalities. In the 1956 calendar year the municipal share amounted to \$9,990,000.

The Federal authority collects a considerable volume of revenue from various indirect commodity taxes, mainly under the head of customs and excise, although sales tax also is listed in this category.

In the 1954 fiscal year, Canadians paid \$883,356,506 in excise taxes including sales tax. In addition, excise duties amounted to \$226,732,460 and customs import duties collected a further \$407,312,241.

The 2% sales tax collected for social security was not included in the above figures. It amounted to still another sum of \$146,832,886, according to the Canada Year Book. Added to the main sales tax figure of \$587,331,544 listed by the same source, it brings the total Federal sales tax paid by Canadians during the year to \$734,164,439. The total sales taxes paid in 1955 were somewhat less—\$715,268,391.

The excise *duties* are imposed mainly on spirits and tobacco goods. Tobacco is taxed at the rate of 35c a pound, cigarettes at \$4 to \$5 a pound and domestic raw leaf at 20c a pound. Spirits are taxed up to \$10 and \$12 a gallon. In 1954, the gross revenue from these items brought in \$248,734,366 to the Federal Treasury.

What are called excise *taxes* were imposed on a wide range of commodities such as amusements, cars, tires and tubes, beverages, candy and chewing gum, carbonic acid gas, smokers' supplies, electrical and gas apparatus, furs, matches, phonographs, radios, radio tubes, playing cards, sugar, toilet preparations, transportation and transmission, as well as wines.

The amount collected in Alberta on these excise taxes is listed in the Canada Year Book as \$17,654,558 for the year 1954.

THE POLL TAX

Variously called Poll, Head and Capitation Tax, this levy is actually imposed on the head of the citizen. Historically it is related to the Statute Labor levy which ensured the participation of each citizen in building roads for common use. In Alberta today a small amount of municipal revenue is collected by the imposition of a poll tax on residents who do not pay property taxes. In 1954 for instance, the City of Drumheller collected \$3,225.00. The Alberta towns collected \$43,864.00 and the rural municipalities \$20,196.00. The three counties collected \$3,008.00.

How do Poll Taxes rate?

YIELD

For

If applied to all citizens or wage earners it could yield a considerable revenue depending on the rate.

Against

The returns are not worth the cost of collection because evasion is widespread. Those who could pay already pay other taxes.

APPLICATION

For

Could be applied to all persons, or any group of the community to obtain desired revenue.

Against

As commonly applied it applies only to those gainfully employed who do not pay real property taxes to the taxing authority which applies the poll tax.

SIMPLICITY

For

The Poll Tax is the essence of simplicity.

Against

Simplicity obtains only when the levy is uniform on all taxpayers.

COLLECTABILITY

For

The manner of application could be devised to ensure the maximum collectability. For instance, collection at wage source.

Against

If imposed in merely general terms with payment on a voluntary basis collection might be well below anticipated revenue.

RELATION TO ABILITY TO PAY

For

Applied only to wage earners and kept at moderate level the relationship would be equitable.

Against

Since it is a flat per person levy it is in no way associated with relative ability to pay.

POSSIBILITY OF ABUSE

For

If applied without exceptions and collected at source of income the possibility of abuse is negligible.

Against

As presently applied it is a hit and miss tax very much abused.

REGRESSIVE TENDENCIES

For

The universal poll tax exemplifies the theory that responsible citizenship demands the bearing of a share of the cost of government. Since all benefit from the spending of public money, all should pay a minimum share, in equity.

Against

The poll tax tends to be regressive because it places an unnecessary burden on those not able to pay other taxes, and also adds to the burden of those who already pay other taxes.

AMUSEMENT TAX

AMUSEMENT TAX

YIELD

For

In times of prosperity and high spending on amusements the tax can yield considerable revenue.

Against

The yield can never become a major part of the total revenue.

SIMPLICITY

For

The tax can be simply stated and is readily understood.

Against

APPLICATION

For

The tax will reach a large part of the population if applied to all admissions to paid amusements.

Against

The tax falls hard on those who prefer to find relaxation in the commercial amusement field. Those who have least at home to provide recreation will be unfairly taxed since they tend to seek entertainment of the public commercial types.

COLLECTABILITY

For

The onus for collection is usually placed on those providing and collecting for amusement. Collections are positive and inexpensive.

Against

RELATION TO ABILITY TO PAY

For

It is quite usual for those who can best afford it to take greatest advantage of commercial amusement, particularly those forms which are expensive. To whatever extent this is true the tax finds a relationship to ability to pay.

Against

If the poor are to have any paid amusement they cannot escape the tax.

The rich may avoid the tax if they are willing to forego paid amusements.

RELATION TO SERVICE RECEIVED

For

Our way of life today is such that almost all who get service would pay some amount of amusement tax.

Against

Any relationship between the amount of amusement tax paid and the amount of government service received by any person or group is entirely co-incidental since this can in no way be regulated by a tax law.

FREEDOM FROM POSSIBILITY OF ABUSE

For

Since most public amusements are regulated and since by their nature they are open to easy investigation the amusement tax is free from nearly all ordinary loopholes for abuse.

Against

Many amusements are provided by groups as money raising projects for charitable purposes. Any tax results in a lesser net revenue for the charitable cause.

Many forms of amusement are cultural and educational. Any tax on the admission discourages people from attending and thus thwarts the purpose of the enterprise.

DUPLICATION OR REGRESSIVE TENDENCIES

For

The tax is not duplicating in any sense and is usually graduated to make it progressively higher as the admission rate increases.

Against

Amusement taxes were first imposed as fund raising measures for war purposes. Once people accepted the tax and became almost unaware they were paying it there was little demand for its repeal after the war. It was retained for revenue purposes only.

In Alberta the tax has been removed on student and low cost tickets and will probably be entirely removed in the near future. It is not usually considered a suitable source of major revenue.

INCOME TAX

There are many variations in Income Tax. It can be a percentage tax on gross income or on net income. It can apply to total income or to only that part of one's income above a fixed or variable exemption. It may or may not apply to capital gains.

As applied in Canada it is a progressive tax on incomes above legislated exemption limits. It is applied to corporations as well as to individuals. It is applied to certain types of capital gain.

YIELD

For

Income taxes are major sources of income. The yield is always high.

Against

APPLICATION

For

It can be made to reach almost every individual who enjoys any income by using very low exemption limits.

Against

A great many people who expect service pay little or no income tax. It applies more severely on those whose income is HIGHEST and is said thus to discourage initiative and high productivity.

SIMPLICITY

For

At best the tax can be stated as a simple % of net income and a scale provided to simplify the progressive features of the tax.

Against

In practice the tax is complex for both small and large business operators. Detailed rules to outline legitimate expenses which may be charged, depreciation rates, shared expenses, acceptable and accounting practises can fill volumes and become incomprehensible to trained accountants, doubly so to the ordinary citizens.

COLLECTABILITY

For

It is easily collected from wage earners by means of compulsory deductions. Business people and the self employed usually make regular payments to avoid penalties. It is collectable in cash and brings a steady revenue to the government.

Against

It is difficult to collect from those whose incomes are not easily checked and verified. Collection enforcement becomes very costly and most unpopular.

RELATION TO ABILITY TO PAY

For

Since low incomes are exempt and since the tax is progressive the amount assessed is more closely related to ability to pay than any other tax.

Against

Since it is assessed on annual income with relatively few citizens allowed to average income over several years it often bears little relation to ability to pay, e.g. a man may have very little income most years but a high income one year. He will be obliged to pay a high tax in that particular year though his average income may well be so low that it would not be taxable.

RELATION TO SERVICE RECEIVED

For

Against

There is no planned or governable relationship between the tax one pays and the government service he may receive. It is a matter of record that those who pay little tax get a relatively high amount of government service.

POSSIBILITY OF ABUSE

For

For most taxpayers there is little danger or possibility of abuse. This is particularly true of wage earners and operators of businesses of varied scope.

Against

For complicated businesses it is impossible to cover every circumstance. This results in different applications of rules by different collectors with resulting unfairness.

Once the rules have been committed to print, lawyers and accountants are able to devise means of varying their accounting and business practices to avoid the tax.

Over zealous enforcement officers often resort to abusive practices in securing information and applying penalties.

DUPLICATING AND REGRESSIVE TENDENCIES

For

The tax is never regressive and is almost entirely free from duplication of assessment.

Against

Income tax is usually recognized as a fair and acceptable source of revenue.

It does not lend itself to multiple use, i.e. by Federal, Provincial and Municipal taxing authorities.

Most of those who propose that no one level of government ought to have the sole right of collecting income tax agree that it is best to have the senior government assess and collect and have an agreed formula for distributing the net revenue from the tax among various government bodies.

Many economists are of the opinion that there must be some limit to the progressive rate charged if we are to assure a healthy economic climate which will encourage continued expansion which always calls for risk capital.

PRODUCTION TAXES

The production tax is often suggested to replace income taxes as they are applied to primary producers and manufacturers. The tax is to be a fixed sum applied to each unit of production, e.g. 3 cents a bushel on wheat, 50 cents a ton on coal, \$8.00 a ton on pig iron, 20 cents a bag on cement, etc.

YIELD

For

Such a tax is certainly capable of producing high revenue.

Against

SIMPLICITY

For

It is the simplest of taxes with the possible exception of poll tax.

Against

It requires rather complex collection machinery.

APPLICATION

For

Against

It can be applied to only certain people and certain enterprises.

COLLECTABILITY

For

For products which must be marketed through central agencies the tax is easily collected.

Against

It is very difficult to enforce collection on products which can be sold other than through central licensed agencies. It encourages bootlegging and results in very expensive enforcement.

RELATION TO ABILITY TO PAY

For

Against

There is little relationship between tax to be levied and ability of the taxpayer to pay. Since it is a fixed tax on each unit of production it must be paid whether or not production is profitable.

RELATION TO SERVICE RECEIVED

For

Against

There can be no planned or governable relationship in this regard. The producer will get service even while he is not producing and will get no more service when production is high.

POSSIBILITY OF ABUSE

For

Against

The tax is very much subject to abuse. It is almost impossible to require goods to be marked when tax is paid. In many cases there can be no way of assuring the accuracy and integrity of collecting agents. Many products are subject to shrinkage and spoilage. Unit measurement is difficult. Enforcement is difficult and costly.

REGRESSIVE TENDENCIES

For

It is often considered superior to land taxes in that a farmer or manufacturer doesn't pay when he fails to produce. In years of hail or disaster there is no tax.

Against

It is subject to many duplications, e.g. the farmer pays on potatoes, the manufacturer on potato chips, etc.

It is not regressive in the sense that the rate may increase with the production. It is regressive in that it imposes the same tax on those whose production is unprofitable as on those who are prospering.

There is no production tax experience upon which we may call for information. This would indicate that taxing authorities of the past have not seen any particular merit in it.

TRANSACTION TAXES

Under this heading may be grouped all those taxes which are designed to charge for the right of doing business. They may be flat fees for each transaction or a percentage of the money involved in the deal. Some examples are: Insurance premium tax; excise stamp tax on cheques, notes, drafts, etc.; mortgage taxes; long distance telephone toll tax, etc.

YIELD

For

Will yield considerable revenue if broadly applied.

Against

Never a major source of revenue and hardly worth the trouble.

APPLICATION

For

The tax will reach most citizens during a year.

Against

It is a penalty tax on those who are in certain businesses which must use regular business forms; cheques, notes, drafts and policies to conduct business. Many people escape completely, many others contribute negligible amounts measured in pennies a year.

SIMPLICITY

For

The tax can be simply set out so that there is no excuse for not being aware of it and its application.

Against

COLLECTABILITY

For

Highly collectable in cash since business institutions act as collectors and no transaction is legal and binding without the tax being paid.

Against

Imposes a nuisance burden on those who must collect and remit the tax.

RELATION TO ABILITY TO PAY

For

Against

The relationship if any is accidental. All who transact taxable business deals must pay regardless of financial status or profit on the transaction.

RELATION TO SERVICE RECEIVED

For

Against

There is no claim that the tax will bear any relationship to the amount of service received from governments.

POSSIBILITY OF ABUSE

For

Generally free from possibility of abuse.

Against

Some abuses are possible in applying excise stamp rules to documents in that the payor of cheques, etc., often fails to provide the stamp. The payee is obliged so to do and usually does it rather than demand that the payor do it.

REGRESSIVE TENDENCIES

For

Not generally considered regressive by nature since there is seldom any increase in rates with the increase of base.

Against

It can become regressive when a business of small profit must be conducted in such a way as to call for many taxable transactions on a small scale, e.g., a tax of 4 cents on each cheque becomes regressive on a small dealer who must issue many cheques of small value since the tax becomes higher on a percentage basis as the value of individual cheques and notes decreases.

Usually such taxes are acceptable on a broad scale only in time of war when people are ready to recognize the need for revenue from every available source. It is considered a nuisance tax.

REVENUE DISTRIBUTION

One of the most important elements of the study in relation to a New Deal in Municipal Finance has been that of a distribution formula which may prove acceptable whether as a new method of distributing the funds now treated as grants or these revenues plus the yield from some acceptable tax policy to be collected by the Province for the municipalities.

It has seemed to the committee that we must all keep in mind the need for making possible in each municipality a minimum standard of service without imposing on the people of any municipality a tax burden out of all proportion to the average of the Province.

The objective has been to establish a rather simple formula by which each municipality shall get in a lump sum its full share of the revenue to be distributed. It has been taken for granted that municipal governments are mature enough today to budget the money so as to give acceptable service in each field without any conditional elements being applied in the formula.

All this implies that there shall be some strong equalizing factors in the formula.

When education is considered one fact immediately presents itself.

To provide rural pupils with educational opportunities somewhat comparable with those offered to urban pupils school centralizations are necessary with the attendant costs of transporting pupils—a cost not involved in urban school systems.

With this cost looked after at least in large part the ratio of assessment per pupil seems to take care of any further equalization which is necessary.

A formula for distributing educational moneys, then, may be established on such a pattern as this:

Let us establish a sum which, in view of costs, the amount of the provincial appropriation, average mill rate on equalized assessment, and level of service which we can accept as minimum standard, seems appropriate to be spent on each pupil during the year.

e.g. If we assume that last year's average cost per pupil can be accepted for this year as a reasonable per pupil expenditure we proceed as follows:

- (1) To get weighted enrolments for each school administrative unit and for the Province we count each elementary school pupil as 1, each junior high school pupil as 1.4 and each high school pupil as 1.8.
- *(2) To get the appropriate per pupil expenditure on a weighted per pupil basis we divide the total expenditure for the Province less costs for transportation by the weighted school population. Let us suppose the figure is \$175.00.

*Note (If last year's per weighted pupil cost is deemed too high or too low in the light of economic circumstances a higher or lower figure can be set with appropriate adjustments in calculations.)

- (3) Deduct from last year's total expenditure the provincial appropriation for the year. The remainder must be tax produced revenue.
- (4) From this the average mill rate on equalized assessment can be determined.
- (5) Now, to get the appropriate share of provincial revenue for any administrative unit we proceed as follows:

Total appropriate expenditure for the unit (Weighted pop. \times 175) — (equalized assess. \times average mill rate to be applied.)

To this sum will be added, for rural areas, a transportation revenue allotment based on some such formula as the following:

\$10 per day per bus unit plus x cents per pupil mile from school in excess of 1½ miles.

There is one other field of service in which many variables are to be considered in effecting appropriate equalization; this is in road construction and maintenance. No general formula can cover variation in topography, population per road area, miles of provincial highway in the municipality, construction difficulties related to soil type, muskeg, near surface rock, new development in oil or industry.

It is proposed that a sum be provided the Department of Highways to be spent on other than main and secondary highways according to the needs of various municipalities as established by the variables concerned.

For all other revenue allotment; for libraries, health units, public works, recreation, cultural activities, etc., including gasoline tax and the

balance of the road appropriation a formula based on population and assessment seems acceptable. It is applied thus for a municipality—

$$\begin{array}{ccccccc} \text{Population} & & & \text{Average per capita} & & & \\ \text{of M.D.} & \times & & \text{assess't for Prov.} & \times & & \text{Appropriation} \\ & & & \hline & & & \text{Actual per capita} & & & \hline & & & \text{assess't for M.D.} & & & \text{Population of} \\ & & & & & & \text{Province} \end{array}$$

An incomplete study and correlation indicates that the two formulae, i.e. that for education and that for all other purposes can be reduced to a single formula without unfair application. It is found, for instance, that the number of elementary and intermediate pupils in the Province does not vary materially per thousand of population as between urban and rural areas. The variation in the number of High School pupils per thousand of population as between urban and rural is decreasing year by year.

Further it is not difficult to relate education costs to costs for all other municipal costs in rural and urban municipalities.

It does not seem unreasonable, then, to hope that we can devise before next year a simple formula for revenue distribution. If by then we have completed our tax studies and accepted an overall basis for taxation we shall be ready to implement the New Deal in Municipal Finance.

NOTE: For your convenience space has been left for you to add any ideas or criticisms you may have.

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